

VZCZCXR09460
PP RUEHDE RUEHDH RUEHDIR
DE RUEHRH #0462 0841339

ZNR UUUUU ZZH
P 251339Z MAR 09
FM AMEMBASSY RIYADH
TO RUEHC/SECSTATE WASHDC PRIORITY 0422
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDOC/USDOC WASHDC 3049
INFO RUEHZM/GULF COOPERATION COUNCIL COLLECTIVE

UNCLAS RIYADH 000462

SIPDIS

STATE FOR NEA/ARP AND EEB/TTP/MTA BRIAN NAFZIGER

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [ETRD](#) [PREL](#) [WTO](#) [SA](#)

SUBJECT: SAUDI ARABIA'S AUTOMOBILE SALES SLOW DOWN

REF: STATE 4753

¶1. (U) Key points and comment:

-- The "boycott" of local car dealers by Saudi consumers, launched in late 2008, continues.

-- Saudi consumers are relying more on a market of second hand cars from Dubai.

Comment: The grass roots campaign against "greedy car dealers" and criticism of the Ministry of Commerce are symptoms of a general dissatisfaction over the increase in the cost of living, which official statistics do not capture fully. Growing uncertainty about the global economy and a sense that the car dealers and government authorities are in cahoots exacerbate the dissatisfaction. End comment.

It's a Boycott

¶2. (U) In late 2008, Saudi consumers launched an extensive internet-based campaign entitled "let it rust" to boycott local car dealers. Since Saudi Arabia does not manufacture cars locally, American and Japanese cars constitute the bulk of the Saudi automotive industry. The lack of auto financing and news of steep declines in Ford, GM, and Chrysler sales in the U.S. raised Saudi consumers' expectations that American car prices will drop by at least 40% on the local market. However, car dealers continued toward the end of 2008 to offer no reduction in retail prices; a policy they believed would prevent the market from going into a steep decline.

Tough Dealers, Tougher Consumers

¶3. (U) The boycott campaign gained momentum in December 2008. There was much public criticism of the Ministry of Commerce and Industry for failing to "reign in greedy car dealers," who, in the public's eye, coordinated efforts to manipulate the market in direction contrary to global trends. In spite of local dealers' efforts to fight the campaign and keep sales from plummeting, recent public reports quote sources in the car industry as saying that Saudi car sales dropped by around 80 percent from November to January. They attributed this acute and unprecedented decrease to the current global recession.

Saudi Consumer Patterns

¶4. (U) In spite of it being the largest market in the Gulf, the Saudi automotive market has tended to grow at a far slower rate than neighboring Gulf states. Saudi consumers do not generally take out car loans. Most Saudi and expatriate workers produce salary statements from their employers, which allow them to place a down payment on a car and pay the rest in monthly installments over 2-3 years. Local economists believe that this tendency to favor cash

purchases, along with continued expectation that a reduction in prices is inevitable, has encouraged most consumers to abstain from near-term purchases.

Other Alternatives

15. (U) A Saudi British Bank economic report published in February predicted that the Saudi car market would face bitter competition from the second hand car market and unofficial importers. As a result of the credit crisis, a growing number of expatriates have been departing Dubai, leaving behind their unpaid for properties and vehicles. We have heard numerous reports that a large number of unofficial importers are purchasing hardly used, second hand cars from Dubai at highly attractive prices. Saudi Arabia also tends to have more lower-cost cars than neighboring Gulf states. With more Saudis and expatriates holding onto their old cars and a growing second hand car market, the car spare part market is booming. Recent reports indicate a 35 percent hike in car spare parts.

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